STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY and UNION ELECTRIC COMPANY, Petition for approval of tariff sheets implementing revised Market Value Index methodology.	)	**Docket No. 02-0656**
COMMONWEALTH EDISON COMPANY Proposed revision of Rider PPO (Power Purchase Option-Market Index), Rate CTC (Customer Transition Charge) and Rider ISS (Interim Supply Services), and to establish Rider CTC-MY (Customer Transition Charge-Multi-Year Experimental). (Tariffs filed on October 1, 2002)	)	**Docket No. 02-0671**
ILLINOIS POWER COMPANY Proposed establishment of Rider MVI II, Market Value Index II. (Tariff filed October 1, 2002)	)	**Docket No. 02-0672 (Consolidated)**

DIRECT TESTIMONY OF DR. DAVID GRACE

ON BEHALF OF ILLINOIS ENERGY CONSORTIUM

Q. Please state your name and business address.

A. My name is David Grace and my business address is 410 West 157th Street, Calumet City, Illinois 60409-4798.

Q. By whom are you presently employed and in what capacity?

A. I am employed by Lincoln School District #156 in Calumet City, Illinois and hold the position of Superintendent of Schools. I have been employed as a teacher for 10 years, a manager of computers for the Sheboygan School District for 4 years, and as an Assistant Superintendent for 14 years

Q. Please describe your educational background and professional experience.

A. Briefly my academic background includes a Doctorate in Education, Masters in Business Education, Masters of Science and Bachelors of Science in Education.

Q. On whose behalf do you present this testimony?

A. I am President of the IEC and I am testifying on behalf of the Illinois Energy Consortium ("IEC").

Q. Please describe the IEC's interest in this docket.

A. The IEC is agent for approximately 275 Illinois school districts for purposes of aggregate purchases of electricity and natural gas for approximately 1,400 school facilities, many of which receive IEC-supplied natural gas and electricity. At the current level of Transition Charges ("TC"), the IEC projects that, on behalf of Illinois schools, it will pay well over $8,000,000 annually in TC charges. The IEC has intervened in this docket because of the Market Value Index ("MVI") method of calculating TCs does not reflect true Illinois retail market prices, nullifies electric

competition and has unfairly placed a huge financial burden on Illinois public schools.

Q. Please describe the structure of the IEC and its aggregate energy-purchasing program.

A. The Illinois Energy Consortium ("IEC") is a not-for-profit Illinois corporation, which is sponsored by the Illinois Association of School Boards, the Illinois Association of School Administrators, and the Illinois Association of School Business Officials. The IEC purchases and delivers electricity and natural gas through joint purchasing arrangements for the benefit of Illinois public schools. With regard to electric purchases, the IEC is the contracting entity and agent for participating school districts. Latham & Associates, an independent consulting firm, solicits bids for electric and natural gas supplies for schools from all known interested suppliers. Latham and Associates is not associated with any energy supplier and is independent energy advisor to school energy purchasing program in Illinois, Iowa, Missouri and Kansas. Daily operations, administration, billing, collections and reporting for the joint school electric program are currently contracted to a third-party administrator, CILCO with offices in Peoria, Illinois. The IEC has contracted with CILCO to perform ARES/RES services for the IEC by purchasing electricity from the IEC-designated successful bidder(s) and retailing the supply to participating schools at a negotiated fixed adder.

Q. Please describe the purpose of your testimony.

A. Under the Illinois Electric Service Customer Choice and Rate Relief Law, MVI tariffs should reflect the Illinois market rates for electricity. In fact, they do not. The purpose of this testimony is to recommend tariff changes to the MVI method of calculating TCs, which, if adopted, will more accurately reflect true Illinois retail market prices for electricity.

Q. When did the IEC begin its aggregate electric purchasing program for Illinois schools?

A. The IEC began electric deliveries to schools in January 2000. To date, 275 Illinois school districts participate in the IEC electric program. The IEC supplies 1,300 school facilities with 330 million kWh per year, with a peak load of approximately about 85 mW and an annual load factor of about 45%. During 2000 and 2001, net school savings on electricity only exceeded $2.5 million dollars. In 2002, there have been little or no savings from competitive suppliers and, in fact, losses have occurred because the TC at current and proposed levels prevents real electric competition. To avoid on-going losses, the IEC has returned many schools to utility supply under the Purchase Power Option.

Q. Please describe the IEC bidding process and the IEC's experience with finding a competitive electric supply.

A. The IEC's contract with CILCO provides that the IEC can independently and at arms-length obtain electric supply bids from potential Illinois and out-of-state wholesale suppliers. Finding competitive alternative electric supplies for schools has been

difficult since Illinois enacted electric competition, especially within the last two years. Recently, finding any competitive alternative power supplier at all has become virtually impossible because actual available electric market prices are materially higher than the MVI used by Illinois utilities in determining TCs.

Q. Will you elaborate on the cause of the IEC's inability to find a competitive supply of electricity?

A. The IEC has found that recent actual electric market prices are materially higher than the MVIs used by ComEd, Illinois Power and Ameren to calculate TCs. Potential suppliers know the prices required to beat the MVI for the ComEd, Ameren and Illinois Power regions and refuse to bid because they know will not be accepted by the IEC. Because they know they would be "out of the market," they refuse to bid. Virtually no electric supplier can compete with incumbent utility supply, either through bundled service or the Purchase Power Option ("PPO") because TCs are based on MVI's that systematically understate true market prices for electricity delivered to retail schools consumers. Unless MVIs soon begin reflecting actual prices available to real retail consumers, the IEC will no longer be able to provide electric savings to schools, the incumbent utility will once again be the only viable electric supplier and utilities will have regained their customers, for which they have been paid millions or billions of dollars for stranded costs presumed to accrue because of loss of customer loads.

Q. Can you give me some examples?

A. In 1999, when we were requesting bids for the 2000 year, we solicited over 50 potential suppliers and received responses from approximately 10 of them. In 2001 and 2002, only two or three suppliers were legitimately interested in making power supply proposals. A common message from potential suppliers was that they do not view Illinois as viable competitive market due to high TCs and therefore will not bid.

Q. At current TC levels, how much do you estimate that schools purchasing through the IEC will pay annually?

A. Primarily because of artificially high TC charges, the IEC is currently only serving about 20% of Illinois pubic school electric requirements on the systems of these the three utilities with TC charges. However, based on the current number of schools served through the IEC and at current TC levels, I estimate that TC charges to be paid only to Commonwealth Edison for the 12-months ending May 2003 will be approximately $8,000,000. This estimate is shown on IEC Exhibit DG-1. This estimate uses actual historic usage for IEC-supplied schools on the ComEd system and applies the current ComEd TC applicable to each school account. As shown on the exhibit, schools fall into multiple rate classes and have correspondingly different ComEd TCs. I have not attempted to estimate the substantial additional school TC payments to Illinois Power and to Ameren.

Q. Has the IEC been able to identify why market prices it receives through a competitive bid process are higher than MVI prices used by utilities to calculate TCs?

A. Yes. The current MVI method used to calculate TCs does not include several real cost items necessary to reflect actual market prices of electricity at retail for schools and other individually small facilities in Illinois. To be reflective of actual retail market prices for Illinois schools, the MVI calculations should include at least the following factors to prevent continued significant understatement of MVI and overstatement of TCs:

1. The MVI must systematically be modified to include the cost of generation capacity required in certain service territories, particularly for Ameren and Illinois Power, to comply with power pool or transmission system requirements. My understanding is that the PJM and Cinergy prices do not include regulatory capacity requirements specific to what is required in Illinois.

2. The MVI must systematically be modified to reflect the operating practices of Ameren and Illinois Power. In particular, where there is a utility requirement that a specific generating unit be nominated and that a specific transmission path be locked up for a year, the cost of those restrictions on power supply must systematically be included in the MVI or the MVI will understate market prices.

3. The MVI must systematically be modified to reflect actual "retail margins" and "ask" prices of power delivered into the respective service territories. Freed up utility capacity from customers switching to alternative suppliers can be sold in to the Illinois retail market and a retail margin adjustment to wholesale prices is necessary. If Cinergy wholesale prices are used for

determining MVI, those prices must be modified to reflect actual ask prices for service into ComEd, Ameren and Illinois Power. The actual "ask" prices reflect the options actually available for a purchaser.

4. The MVI must systematically be modified to reflect the costs avoided by the incumbent utility for load following services. The MVI must also reflect future Regional Transmission Operator charges imposed on Load Serving Entities and costs of other delivery system terms and conditions required for actual deliveries of power to actual customers. Schools usage varies constantly and the MVI must systematically reflect the actual costs of power to follow actual load patterns. In aggregate, Illinois schools are major electricity users, but even in aggregate 1300 school facilities have a peak demand of only about 85 megawatts, which does not constitute a typically traded block of 100 megawatts taken at a flat usage rate around the clock for every day. The MVI must systematically reflect the costs of purchasing power in less-than-contract lots because very few individual Illinois customers are able to use full contract commitments to serve their own loads without modification due to size and load patterns.

5. The MVI must systematically reflect the full costs of administration of customer services, enrollment, and marketing that are avoided by the utility when a customer takes supply from an independent supplier.

6. The MVI must systematically reflect the costs avoided by the incumbent utility from having to provide a PPO option for a year at a time under current practices. These avoided costs include the strike price of the option foregone, the costs of imbalances foregone and other related costs foregone by not supplying a customer under the PPO.

Q. Has the IEC made its concerns known to the utilities?

A. Yes. The IEC participated in Chicago and Springfield workshops sponsored by Representative Phil Novak. The IEC also participated in ICC-sponsored workshops. The IEC is committed to working with the utilities through workshops, informal negotiations and through this regulatory proceeding. However, if problems with the MVI method of calculating TCs aren't resolved very soon, the negative impact to schools will be so great that the IEC will either have to discontinue its mission of trying to obtain market priced electricity for schools or seek a legislative remedy.

Q. Please explain how profiles of Illinois schools cause a mismatch between wholesale-based market prices and retail prices to schools.

A. School load profiles are reasonably predictable. Schools have significant electric loads in the non-summer periods from September through May. Time of usage through the typical week is predominantly during on-peak hours. Average usage per hour versus peak usage per month or year (load factor), for school is about 45%. Obviously, these IEC school loads are not continuous electric loads of 100% load factor and are less than 100 mW. As such, these school loads do not fit the 100% load factor and 100 mW bulk power blocks under which power is frequently traded in the market. These are "odd-lots" of power, distributed to 1,300 school facilities across three electric service territories, with significant daily and hourly load variations. There are very significant administrative requirements to deliver the power to these locations. There are also major continuing concerns that IEC

participants could incur penalties from imbalances between projected loads and actual hourly deliveries.

Q. What are the consequences to schools of artificially high TC charges?

A. If the current systematic measurement of MVIs continues to understate actual market values, there simply will not be alternative retail power supplies delivered in Illinois. No supplier will continue to supply at below-market prices. The only realistic short-term alternative has been for the IEC to begin placing schools on the PPO or bundled service. Longer-term, the calculation of the MVIs must be revised to reflect actual market conditions for actual deliveries of power to real customers such as IEC school participants. Absent corrective to the faulty MVI method of calculating TCs, the IEC must seriously consider closing shop on its electric aggregate purchasing program for schools.

Q. Has the IEC attempted to quantify the difference between the MVIs and prices at which retail electricity can be purchased in Illinois?

A. Yes. Based on actual bids received for this year, approximately $0.007/kWh is, on average, the difference between the price at which Illinois retail electricity is available to schools and the MVIs used to calculate current TCs.

Q. Please state the IEC's recommendation.

A. The IEC recommends that to be reflective of the Illinois retail market that utilities add a factor of $0.007/kWh to the MVI when calculating TCs for public schools.

Q. Dr. Grace, what are you asking the Commission to do in this proceeding?

A. We propose that the Commission reject the current MVI tariffs and propose modifications that reflect the Illinois true market value of electricity. Our experience indicates that an additional $0.007/kWh should be added to MVI tariffs when calculating the TCs for Illinois public schools. The utilities using the MVI methodology have no incentive to file MVIs that calculate the actual market value. In fact, they have a vested interest in maintaining the status quo and holding public schools as captive customers. Unless drastic revisions are made to the MVI tariffs, the purpose of establishing a competitive marketplace where competitive electric sales are encouraged and flourishing, there will be no purpose in the Act at all. When utilities file MVI tariffs that do not reflect the actual competitive marketplace price, the purpose of the Electric Service Customer Choice and Rate Relief Act of encouraging competition is not only frustrated, the Act's purpose is completely defeated and the policy of electric competition dies.

Q. Please summarize the IEC's position.

A. The IEC's state-wide electric purchasing program for the benefit of Illinois public schools is seriously limited by the availability of electric power in the various service territories at delivered prices and terms that are competitive with the utility-specific MVIs and, hence, the related PPOs. IEC's experience is that the MVIs are simply not representative of prices for electric power that are actually available in the market. The MVIs are consistently and systematically much lower than the actual offered market prices for IEC power supplies that can be obtained in the open market through

an open bidding process. Particularly with the most recent ComEd MVIs, these were much lower than any real market prices for real markets of which the IEC is aware. In fact, actual retail electric prices are in the range of 40% higher than the recent ComEd MVI. Because of this issue, it is no surprise that there is a scarcity of alternative power supplies delivered to the customers in the Illinois service territories. To correct this problem, a factor of $0.007/kWh should be added to the MVI when calculating TCs for public schools. With MVIs reflective of actual market prices, the IEC conservatively believes it could triple the kWh volume of electricity delivered to its potential school participants.

Q. Does this conclude your testimony?

A. Yes, it does. Thank you.

Illinois Energy Consortium

Exhibit DG-1

Projected CTC Payments to Commonwealth Edison Co.

Month	Class kW	Kwh	CTC	Cost	Class kW	Kwh	CTC	Cost
Jun-02	**1-Watt Hr**	12,210	0.04365	$ 532.97	**400-800**	6,086,332	0.02449	$ 149,054.27
Jul-02		13,783	0.04365	$ 601.63		5,309,824	0.02449	$ 130,037.59
Aug-02		13,470	0.04365	$ 587.97		5,488,751	0.02449	$ 134,419.51
Sep-02		14,997	0.04365	$ 654.62		7,305,366	0.02449	$ 178,908.41
Oct-02		14,474	0.04365	$ 631.79		7,026,966	0.02449	$ 172,090.40
Nov-02		11,857	0.04365	$ 517.56		5,988,700	0.02449	$ 146,663.26
Dec-02		12,987	0.04365	$ 566.88		6,763,636	0.02449	$ 165,641.45
Jan-03		14,662	0.0414	$ 607.01		7,403,130	0.02312	$ 171,160.37
Feb-03		11,607	0.0414	$ 480.53		7,215,556	0.02312	$ 166,823.65
Mar-03		12,362	0.0414	$ 511.79		6,974,539	0.02312	$ 161,251.34
Apr-03		12,441	0.0414	$ 515.06		6,331,696	0.02312	$ 146,388.81
May-03		11,305	0.0414	$ 468.03		6,542,637	0.02312	$ 151,265.77
Jun-02	**0-25 kw**	58,916	0.03872	$ 2,281.23	**800-1000**	2,499,009	0.02559	$ 63,949.64
Jul-02		60,348	0.03872	$ 2,336.67		2,395,816	0.02559	$ 61,308.93
Aug-02		59,959	0.03872	$ 2,321.61		2,065,503	0.02559	$ 52,856.22
Sep-02		69,347	0.03872	$ 2,685.12		3,145,622	0.02559	$ 80,496.47
Oct-02		64,494	0.03872	$ 2,497.21		3,037,097	0.02559	$ 77,719.31
Nov-02		78,766	0.03872	$ 3,049.82		2,581,134	0.02559	$ 66,051.22
Dec-02		88,786	0.03872	$ 3,437.79		2,901,298	0.02559	$ 74,244.22
Jan-03		124,117	0.03686	$ 4,574.95		2,987,617	0.02423	$ 72,389.96
Feb-03		115,373	0.03686	$ 4,252.65		2,942,068	0.02423	$ 71,286.31
Mar-03		107,754	0.03686	$ 3,971.81		2,898,594	0.02423	$ 70,232.93
Apr-03		85,975	0.03686	$ 3,169.04		2,705,552	0.02423	$ 65,555.52
May-03		65,349	0.03686	$ 2,408.76		2,633,473	0.02423	$ 63,809.05
Jun-02	**25-100**	1,888,329	0.03292	$ 62,163.79	**1000-3000**	2,996,423	0.0228	$ 68,318.44
Jul-02		1,608,188	0.03292	$ 52,941.55		2,889,092	0.0228	$ 65,871.30
Aug-02		1,547,584	0.03292	$ 50,946.47		2,807,075	0.0228	$ 64,001.31
Sep-02		2,189,093	0.03292	$ 72,064.94		3,242,863	0.0228	$ 73,937.28
Oct-02		2,444,650	0.03292	$ 80,477.88		3,004,424	0.0228	$ 68,500.87
Nov-02		2,172,873	0.03292	$ 71,530.98		2,592,160	0.0228	$ 59,101.25
Dec-02		2,450,650	0.03292	$ 80,675.40		3,001,532	0.0228	$ 68,434.93
Jan-03		2,517,517	0.03126	$ 78,697.58		2,886,368	0.0215	$ 62,056.91
Feb-03		2,581,386	0.03126	$ 80,694.13		2,724,102	0.0215	$ 58,568.19
Mar-03		2,404,523	0.03126	$ 75,165.39		2,756,259	0.0215	$ 59,259.57
Apr-03		2,197,946	0.03126	$ 68,707.79		2,542,835	0.0215	$ 54,670.95
May-03		2,206,578	0.03126	$ 68,977.63		2,832,154	0.0215	$ 60,891.31
Jun-02	**100-400**	10,255,833	0.02806	$ 287,778.67	**IEC Est. CTC Total on ComEd**			**$7,985,862.93**
Jul-02		8,758,115	0.02806	$ 245,752.71				
Aug-02		8,749,746	0.02806	$ 245,517.87				
Sep-02		12,252,625	0.02806	$ 343,808.66				
Oct-02		11,934,481	0.02806	$ 334,881.54				
Nov-02		10,854,741	0.02806	$ 304,584.03				
Dec-02		11,765,330	0.02806	$ 330,135.16				
Jan-03		11,990,947	0.02657	$ 318,599.46				
Feb-03		12,304,125	0.02657	$ 326,920.60				
Mar-03		11,821,890	0.02657	$ 314,107.62				
Apr-03		10,976,489	0.02657	$ 291,645.31				
May-03		11,223,499	0.02657	$ 298,208.37				

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CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing instrument was served upon of all parties listed on the Service List on this 16th day of December, 2002.

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